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Annual Report 1978



ESTGROWTH PETROLEUMS LTD.

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**Directors**

Eric C. Gronberg  
L. Lamont Gordon  
Allan R. Twa  
Richard Wengren  
Harold M. Wright

**Officers**

Eric C. Gronberg  
*President*  
J. Leslie Watson  
*Vice President Exploration*  
Allan R. Twa  
*Secretary*  
Magdalena E. Robutka  
*Treasurer*

**Head Office**

Suite 470  
407 - 8th Avenue S.W.,  
Calgary, Alberta

**Registered Office**

555 Burrard Street  
Vancouver, B.C.

**Auditors**

Thorne Riddell & Co.  
Calgary, Alberta

**Bankers**

The Royal Bank of Canada  
Calgary, Alberta

**Solicitors**

Burnet, Duckworth & Palmer  
Calgary, Alberta

**Registrar and Transfer Agent**

Guaranty Trust Company of Canada  
Vancouver, B.C. and Calgary, Alberta

**Stock Listing**

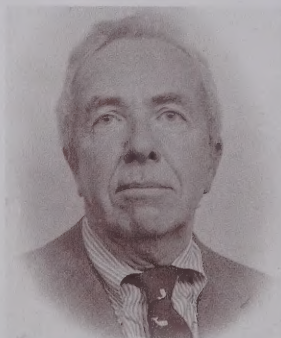
Vancouver Stock Exchange  
Trading Symbol: WGP



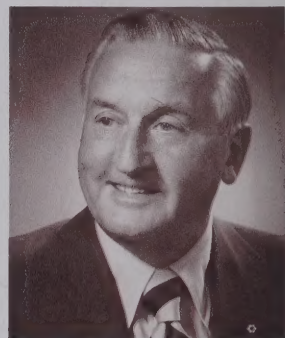
L. Lamont Gordon



Allan R. Twa



Richard Wengren



Harold M. Wright



J. Leslie Watson



Magdalena E. Robutka

**Annual Meeting**

June 8, 1979  
Bayshore Inn — 11:00 a.m.  
The Chairman Room  
Vancouver, B.C.

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## To the Shareholders:

On behalf of your new Board of Directors and as the new President, it is my privilege to report to you on Freehold's activities during 1978 and those anticipated or already completed for 1979.

In spite of the cutback in gas purchases by TransCanada PipeLines from the Company's Retlaw field in southern Alberta, and the lack of new exploration or development activity, revenues totalled \$246,741 compared to \$330,082 the previous year. Net earnings declined from \$80,761 in 1977 to \$35,802, or from \$.03 per share to \$.013 per share respectively.

Beginning in December 1978, a proposal to reorganize Freehold by effecting new capital and new exploration-oriented management was initiated by Gordon Resources Ltd. This move to revitalize the Company was completed February 1, 1979 and resulted in the following:

- 1) The injection of \$1,000,000 of new equity into the Company through the sale of 100,000 Convertible Preferred Shares.
- 2) The installation of the following new Officers and Directors in the Company:

Eric C. Gronberg	President & Director (formerly Canadian Division Manager of Wainoco Oil & Gas Ltd.)
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L. Lamont Gordon	Director (Chairman of the Board of Gordon Resources Limited, Toronto)
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Allan R. Twa	Secretary & Director (Attorney and Partner; Burnet, Duckworth & Palmer, Calgary)
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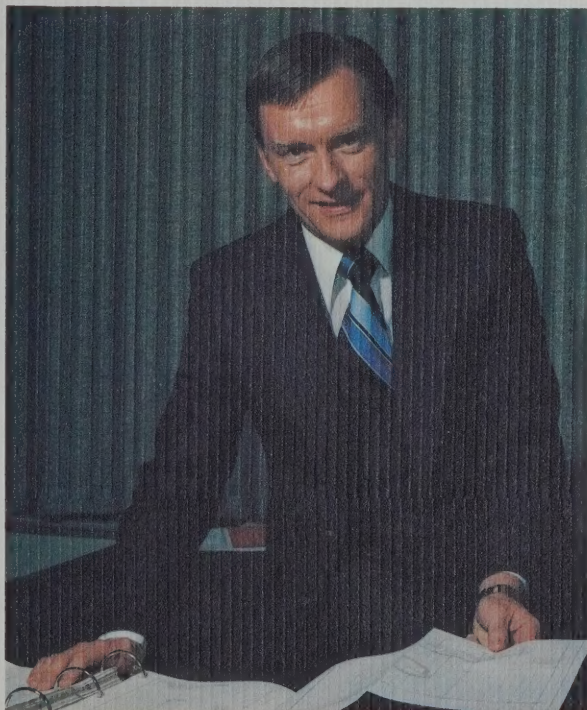
Richard Wengren	Director (Retired President of The Baystate Corp., Lincoln, Mass.)
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Harold M. Wright	Director (Chairman of the Board of Wright Engineers Limited, Vancouver)
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J. Leslie Watson	Vice President Exploration (formerly Chief Geologist of Wainoco Oil & Gas Ltd.)
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Magdalena E. Robutka	Treasurer (Executive Secretary of Westgrowth Petroleums Ltd.)
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- 3) The acquisition of 853,251 common shares or 49.6% of Westgrowth Investments Limited, which in turn control 33.2% of Westgrowth Petroleums Ltd. (N.P.L.).
- 4) The change in name from Freehold Gas & Oil Ltd., to Westgrowth Petroleums Ltd. (N.P.L.).
- 5) The signing of a Joint Venture Agreement between Westgrowth Petroleums Ltd. and The Resource Service Group Ltd., whereby a minimum of \$2,000,000 has been committed over the next two years for exploration and development and J. M. S. Lecky, Chairman of The Resource Service Group Ltd., will join Westgrowth's Board of Directors.
- 6) The initiation of a Canadian Drilling Fund which should result in an additional \$2,000,000 - \$4,000,000 being available in 1979 for Westgrowth's exploration effort.



All of the foregoing events signal a new era for your Company. During the first quarter of 1979 Westgrowth has already acquired an interest in 12,944 acres of land, and committed to participate in several wells in Alberta and British Columbia. The combination of the monies provided by The Resource Service Group and the proposed Canadian Drilling Fund should enable participation in some 20 - 25 wells of the low to medium risk variety.

In addition, considerable effort will be spent to improve upon the declining cash flow situation from the Company's Retlaw property as well as maximizing the undeveloped potential for additional oil and gas reserves.

To conclude, 1979 promises to be a year of exciting new developments for Westgrowth, and I look forward to the impact these events will have on your Company.

On behalf of the Board of Directors,

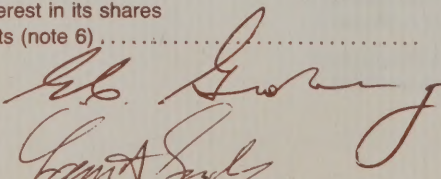
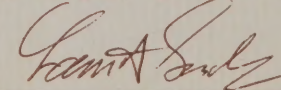
E. C. Gronberg  
President



# Balance Sheet

as at December 31, 1978

Westgrowth Petroleums Ltd. (N.P.L.) (Note 1)

Assets	Pro-forma 1978 (note 6)	1978	1977
<b>Current Assets</b>			
Cash .....	\$1,013,966	\$259,967	\$207,307
Accounts receivable .....	84,773	84,772	102,196
Deposits .....	15,526	15,526	15,526
	<u>1,114,265</u>	<u>360,265</u>	<u>325,029</u>
<b>Investment, at cost (note 3) .....</b>	<u>55,750</u>	<u>55,750</u>	<u>55,750</u>
<b>Investment in Westgrowth Investments Limited .....</b>	<u>175,000</u>	<u>—</u>	<u>—</u>
<b>Fixed Assets</b>			
Petroleum and natural gas leases and rights together with development and equipment thereon, at cost			
Producing .....	539,501	539,501	539,501
Accumulated depletion and depreciation .....	<u>279,460</u>	<u>279,460</u>	<u>261,424</u>
	260,041	260,041	278,077
Non-producing .....	<u>57,994</u>	<u>57,994</u>	<u>57,994</u>
	<u>318,035</u>	<u>318,035</u>	<u>336,071</u>
	<u>\$1,663,050</u>	<u>\$734,050</u>	<u>\$716,850</u>
<b>Liabilities</b>	Pro-forma 1978 (note 6)	1978	1977
<b>Current Liabilities</b>			
Accounts payable .....	\$ 94,073	\$ 94,073	\$ 80,571
Bank production loan, secured .....	<u>18,000</u>	<u>18,000</u>	<u>—</u>
	<u>112,073</u>	<u>112,073</u>	<u>80,571</u>
<b>Bank Production Loan .....</b>	<u>—</u>	<u>—</u>	<u>58,800</u>
<b>Deferred Production Revenue .....</b>	<u>8,696</u>	<u>8,696</u>	<u>—</u>
<b>Shareholders' Equity</b>			
<b>Capital Stock</b>			
Authorized			
Balance sheet			
5,000,000 common shares of no par value			
Pro-forma balance sheet			
10,000,000 common shares of no par value			
126,500 cumulative, redeemable, convertible, preferred shares of \$10 each par value having an annual dividend rate of \$1 per share			
Issued			
Balance sheet			
2,669,008 common shares .....	1,768,722	1,764,722	1,764,722
Pro-forma balance sheet			
126,500 preferred shares .....	1,265,000	—	—
<b>Deficit .....</b>	<u>(1,201,441)</u>	<u>(1,151,441)</u>	<u>(1,187,243)</u>
	1,832,281	613,281	577,479
Less Westgrowth Petroleums' interest in its shares held by Westgrowth Investments (note 6) .....	<u>(290,000)</u>	<u>—</u>	<u>—</u>
	1,542,281	613,281	577,479
Approved by the Board     Director 	<u>\$1,663,050</u>	<u>\$ 734,050</u>	<u>\$ 716,850</u>
Director 			

## Statement of Earnings and Deficit

Year ended December 31, 1978

Westgrowth Petroleums Ltd. (N.P.L.) (Note 1)

	1978	1977
<b>Revenue</b>		
Oil and gas, net .....	\$ 229,764	\$ 322,256
Gain on sale of fixed assets .....	—	1,155
Interest and other .....	16,977	6,671
	<u>246,741</u>	<u>330,082</u>
<b>Expenses</b>		
Production .....	74,332	84,654
Lease rentals .....	20,445	27,756
Geological .....	7,996	8,566
General and administrative .....	108,752	87,432
Depletion .....	15,989	41,906
Depreciation .....	2,047	2,288
Interest .....	4,083	8,299
Abandoned properties .....	—	18,000
	<u>233,644</u>	<u>278,901</u>
<b>Earnings Before Income Taxes and Extraordinary Item</b> .....	<u>13,097</u>	<u>51,181</u>
<b>Income Taxes</b>		
Deferred .....	24,360	36,286
Alberta Royalty Tax Credit .....	(22,705)	(29,580)
	<u>1,655</u>	<u>6,706</u>
Earnings before extraordinary item .....	<u>11,442</u>	<u>44,475</u>
<b>Extraordinary Item</b>		
Recovery of deferred income taxes (note 4) .....	<u>24,360</u>	<u>36,286</u>
<b>Net Earnings</b> .....	<u>35,802</u>	<u>80,761</u>
Deficit at beginning of year .....	<u>1,187,243</u>	<u>1,268,004</u>
<b>Deficit at End of Year</b> .....	<u>\$1,151,441</u>	<u>\$1,187,243</u>
<b>Per Share</b>		
Earnings before extraordinary item .....	<u>\$ .005</u>	<u>\$ .02</u>
Net earnings .....	<u>\$ .013</u>	<u>\$ .03</u>

## Statement of Changes in Financial Position

Year ended December 31, 1978

Westgrowth Petroleums Ltd. (N.P.L.) (Note 1)

	1978	1977
<b>Working Capital Derived From</b>		
Operations		
Earnings before extraordinary item .....	\$ 11,442	\$ 44,475
Items not requiring working capital .....	42,396	97,326
	<u>53,838</u>	<u>141,801</u>
Proceeds on sale of fixed assets .....	—	16,552
Deferred production revenue .....	8,696	—
	<u>62,534</u>	<u>158,353</u>
<b>Working Capital Applied To</b>		
Reduction of bank production loan .....	58,800	40,800
Fixed assets .....	—	553
	<u>58,800</u>	<u>41,353</u>
<b>Increase in Working Capital</b> .....	<u>3,734</u>	<u>117,000</u>
Working capital at beginning of year .....	<u>244,458</u>	<u>127,458</u>
<b>Working Capital at End of Year</b> .....	<u>\$248,192</u>	<u>\$244,458</u>



# Notes to Financial Statements

Year ended December 31, 1978

Westgrowth Petroleums Ltd. (N.P.L.) (Note 1)

## 1. Change of Name

The company changed its name to Westgrowth Petroleums Ltd. (N.P.L.) from Freehold Gas and Oil Ltd. on January 12, 1979.

## 2. Accounting Policies

### a) Oil and Gas Properties

Exploration expenses and carrying charges of both producing and non-producing properties are charged to earnings as incurred. Lease acquisition costs are capitalized and are charged to earnings if the lease is subsequently surrendered. The cost of drilling a productive well is capitalized and the cost of an unproductive well is charged to earnings when determined to be dry. The costs of producing leases and the costs of drilling producing wells are amortized using the unit of production method based upon estimated recoverable quantities of oil and gas. Depreciation of production equipment, applied on the declining balance method, is based upon its estimated service life.

### b) Income Taxes

The company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in its accounts.

## 3. Investment

The investment in Mid-Can Exploration Ltd. represents approximately 13% of the outstanding shares of that company.

## 4. Income Taxes

As at December 31, 1978, the company had loss carry-forwards, exploration and development costs and capital cost allowances available for deduction against future taxable income as follows (all subject to final determination by taxation authorities):

Loss carry-forwards (expire in varying amounts beginning in 1979)	\$ 40,000
Exploration and development costs	833,000
Undepreciated capital cost	55,000

## 5. Executive Remuneration

Included in general and administrative expense is directors' and senior officers' remuneration of \$36,000.

## 6. Subsequent Events

Subsequent to December 31, 1978, the company completed the following transactions:

a) increased its authorized capital stock to 10,000,000 shares of no par value and 126,500 cumulative, redeemable, convertible preferred shares of \$10 each par value having an annual dividend rate of \$1 per share;

b) issued 100,000 preferred shares at par for \$1,000,000 cash and paid a commission of \$50,000 in respect thereof;

c) issued, for an aggregate price of \$4,000, warrants to purchase common shares as follows:

- i) 200,000 shares at \$ .50 per share expiring December 31, 1981,
- ii) 200,000 shares at a price of \$ .50 per share in 1979, increasing by \$ .10 per share for each year subsequent to 1979, expiring December 31, 1983;

d) purchased 853,251 common shares (49.6% of the outstanding shares) of Westgrowth Investments Limited, a public company having principal assets of 884,922 common shares (33.2%) of Westgrowth Petroleums and Frontier Mud Logging (a division engaged in the supply of services to the petroleum industry), for a consideration of \$200,000 cash and 26,500 preferred shares of Westgrowth Petroleums.

Because of the materiality of the above transactions and to provide shareholders with an understanding of the financial position of the company subsequent to the completion thereof, a pro-forma balance sheet giving effect to the transactions as at December 31, 1978 has been included in the financial statements.

Since Westgrowth Investments Limited owns 33.2% of the outstanding common shares of Westgrowth Petroleums, Westgrowth Petroleums, (through its investment in Westgrowth), has a 16.5% pro rata interest in its own shares. The investment in Westgrowth and shareholders' equity in the pro-forma balance sheet have therefore been reduced by the allocated portion of the cost of the investment in Westgrowth relating thereto.

## Auditors' Report

To the Shareholders of  
Westgrowth Petroleums Ltd. (N.P.L.) (Note 1)

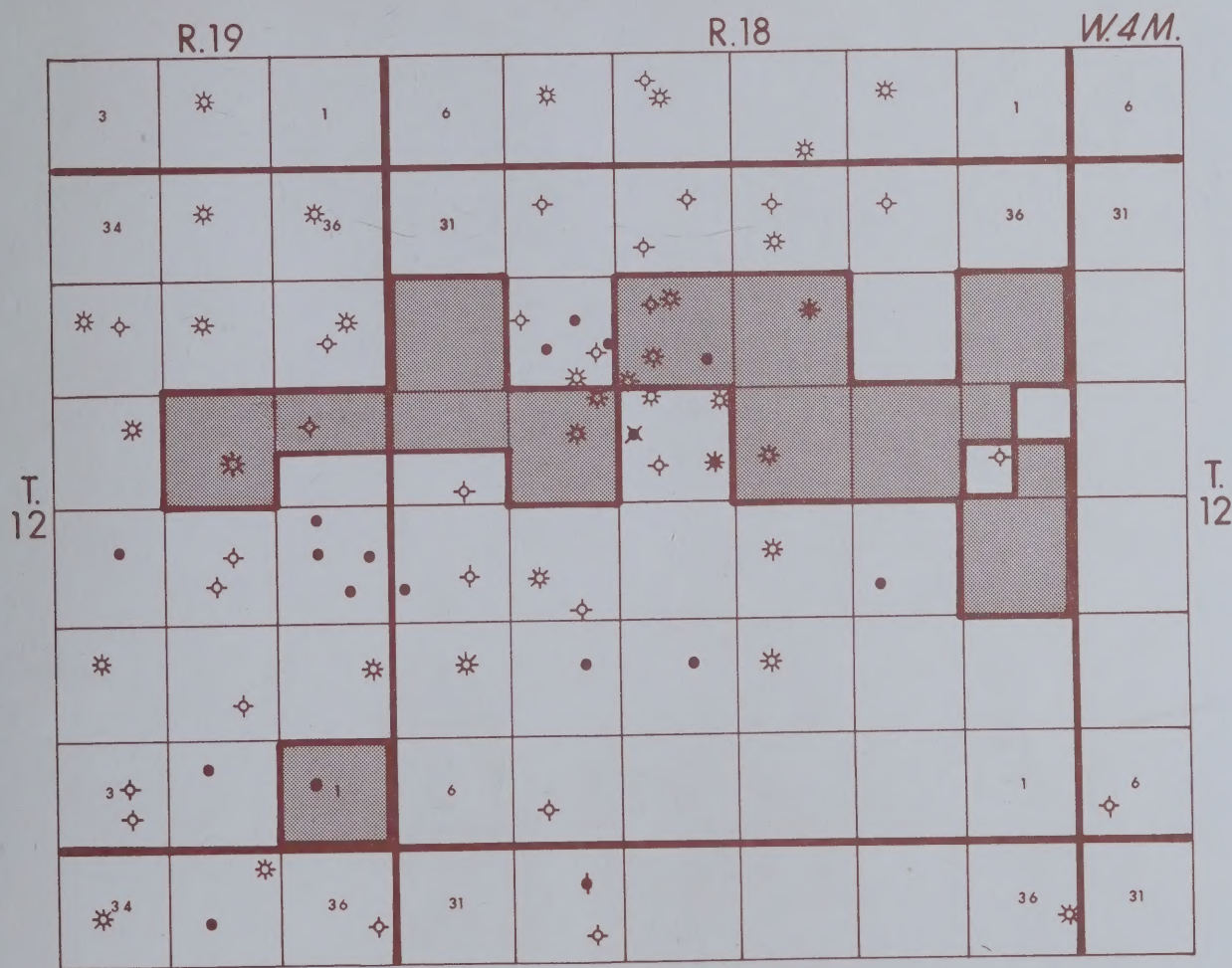
We have examined the balance sheet and the pro-forma balance sheet of Westgrowth Petroleums Ltd. (N.P.L.) as at December 31, 1978 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion also, the pro-forma balance sheet presents fairly the financial position of the company as at December 31, 1978 after giving effect, as at that date, to the transactions as outlined in note 6 to the financial statements.

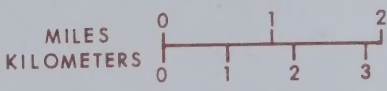
Calgary, Canada  
March 9, 1979

Thorne Riddell & Co.  
Chartered Accountants



LEGEND

- OIL WELL
- ☼ GAS WELL
- ☼● OIL AND GAS WELL
- ⊕ ABANDONED WELL
- LOCATION
- ⊗ INJECTION WELL



WESTGROWTH PETROLEUMS ACREAGE

(INTEREST VARIES FROM A 2.9% GROSS OVERRIDING ROYALTY UNTIL PAYOUT TO A 90.6% WORKING INTEREST.)





**ESTGROWTH PETROLEUMS LTD.**

Suite 470, 407 - 8th Avenue S.W., Calgary, Alberta, T2P 1E5 (403) 265-2681